AR49

J.M.SCHNEIDER LIMITED

KITCHENER, ONTARIO, CANADA

Famous for Quality Meats

FOR IMMEDIATE RELEASE

SCHNEIDERS ANNOUNCE ANOTHER RECORD SALES YEAR

F.P. Schneider, Vice Chairman of the Board of Directors and Chief Executive Officer, J.M. Schneider Limited, Meat Packers of Kitchener, has announced that preliminary, unaudited figures indicate a 16.8% increase in earnings for the fiscal year ended November 1, 1969 compared with 1968. Dollar sales were up 14.9% and earnings per share up 16.8%.

Dollar sales were a record high at $70,181,000. ($61,067,000 - 1968). Net earnings of $1,249,000. ($1,069,000 - 1968) were the second highest in the Company's history. Earnings per share were 66¢ (56¢ - 1968).

The new convenience food plant at Ayr, Ontario, will begin production in January, 1970, and construction has started in Kitchener on a $3,000,000. Sausage and Cooked Meats plant.

Changes in the marketing organization recently announced should add to sales and profits as they enable the Company to tailor its products and services to the needs of the customer.

A strengthened product development department is helping to innovate new and to improve present product lines with Snack Foods one of their prime target areas. The new and expanding snack field is at once

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a challenge and an opportunity. Several new products being developed and tested look promising.

Mr. Schneider expressed optimism for the future as projects now being planned or in construction begin to make their contribution.

The Company's Annual Meeting is scheduled for Tuesday, January 20, 1970 in the Walper Hotel, Kitchener at 7:30 p.m.

Ref: F.P. Schneider
Vice Chairman of the Board
and Chief Executive Officer

MYW
McLEOD, YOUNG, WEIR

APRIL 29, 1969

From our
Research Department

AR49

J. M. SCHNEIDER, LIMITED

SUMMARY

This long established company is one of the most profitable meat packing operations in Canada. The strength of its profits can largely be accounted for by the fact that its sales mix has a high proportion of processed or convenience products. These will play an increasingly important role in the future of this company as new product development is receiving considerable attention by management. A new plant specifically designed for the production of new convenience products is being built at Ayr, Ontario. It is this factor that gives Schneider's an outlook for sales growth in excess of that anticipated for the meat packing industry.

Management has demonstrated an ability to innovate in its manufacturing processes through increased mechanization. This has enabled the company to show improvements in gross profit margin during a period of rapidly rising labour and material costs.

In the period from 1965 to 1968, earnings did not reflect fully the progress made in sales and gross profits as overhead costs increased substantially. Over the next few years, the company does not anticipate the same rate of increase in overhead costs, while it appears quite likely that the trend of sales and gross profits will be maintained or possibly improved. Consequently, we expect Schneider's earnings per share to grow at a significantly improved rate over the next three years compared to the previous three years.

At the current market of approximately $9, the shares are trading at 17 times 1968 earnings and 15½ times estimated 1969 earnings. The stock is attractive for intermediate term capital appreciation with modest income. On the indicated dividend of 24¢, the stock yields 2.67%. Some speculative appeal is present in that acquisitions are now being considered as a suitable way to expand the company in areas that complements its primary business.

Years ended Approximately October	--- Actual ---		----- Estimated -----		
	1967	1968	1969	1970	1971
Sales	57,902	61,067	65,400	70,000	76,000
Gross Profits	8,089	9,024	9,740	10,600	11,550
Net Income	1,031	1,069	1,155	1,290	1,400
Earnings per Share	$0.54	$0.56	$0.61	$0.68	$0.74

THE COMPANY

Schneider's Limited is a full line meat packer that has operated from Kitchener for the past 78 years. Unlike other packing house operations, it is highly centralized with all its slaughtering and packing operations taking place at its Kitchener plant, a modern 350,000 square foot building. In Wellesley, Ontario, 15 miles from Kitchener, the company operates a 97 acre farm and two manufacturing plants, one handling eggs and the other processed and natural cheese. It has a sales force of 80 people and maintains branch offices in Toronto, Hamilton, London, Windsor, Sudbury, Ottawa and Montreal which are linked through modern communications media to the company's computerized order processing system. This enables the company to provide very fast turnaround on orders throughout its market area. In Toronto, for instance, Schneider's will accept orders later in the day than most of its competitors and is still able to provide next day delivery in spite of the fact that it is delivering from Kitchener, whereas its competitors are shipping primarily from Toronto plants. Next day delivery service is provided over a wide area of the company's market from Montreal in the east to Sudbury in the north and is an important competitive advantage for the company. Because of its centralized operations, Schneider's can carry a greater proportion of its products to customers in its own trucks which gives it a cost advantage in distribution plus greater control than companies that have to rely to a higher degree on common carriers.

Schneider's has traditionally emphasized the independent retail store in its sales effort and these customers currently account for about 45% of company volume. Corporate chains, independent chains and voluntary group stores are now getting more attention and take approximately 35% of the sales volume. An important and growing section of its market is made up of hotels, restaurants and institutions which now account for 16% of sales volume with export and miscellaneous accounting for the remaining 4%.

OPERATIONS

TABLE I

Meat Packing Sales/Sales Growth

	Growth/Year		Sales ($000,000)						
	67/68	62/67	1968	1967	1966	1965	1964	1963	1962
Schneider's	5.5%	8.7%	61.1	57.9	58.9	48.1	42.5	40.0	38.1
Canada Packers	n.a.	6.4%	n.a.	577.8	463.0	514.3	444.0	n.a.	423.6
Burns Foods	6.2%	1.8%	165.4	155.7	164.0	138.2	127.3	134.6	142.2

Sources: Canada Packers Annual Reports - Sales of "All products derived from livestock and products derived from other farm raw materials" for fiscal years ending March following calendar years.

Burns Foods - Sales of Meat Packing Division. Annual Reports.

Schneider's - Sales for years ending approximately October 31 the calendar year.

Table I shows the annual increase and reported sales by Schneider's and compares it to the reported sales of the meat packing divisions of Canada Packers and Burns Foods through the years 1962 to 1967 inclusive. Over this period, Schneider's sales showed a compound rate of growth of 8.7% per year which is considerably above that shown by both Canada Packers and Burns Foods. In a large measure, this can be attributed to the high proportion of Schneider's total sales in processed meat products which are basically convenience foods. It is convenience foods which hold the promise for further growth by this industry. With something like 45% of present sales in these lines, Schneider's is now well established and its plans for new products in this field are progressing favourably. A new plant at Ayr, which Schneider's plans to build this year at an approximate cost to the company of $1,000,000, will be devoted to convenience foods. Some existing lines will be transferred from Schneider's main plant but it will largely be used for the production of new products. The new Ayr plant will initially be 22,000 square feet in size but the site contains a total of 23 acres of land providing ample room for long term growth.

The emphasis placed on processed meats has meant that Schneider's sales have been concentrated in the higher profit margin end of the meat packing business. The effect on Schneider's profit margins is clearly illustrated when they are compared with the net profit margins of the meat packing divisions of Canada Packers and Burns Foods. Table II below illustrates this.

TABLE II

Net Profit Margin on Meat Packing Sales
Profit Margin - %

	1968	1967	1966	1965	1964	1963	1962
Schneider's	1.75%	1.78%	2.29%	1.77%	2.27%	2.10%	1.78%
Canada Packers	n.a.	0.48%	Loss	0.71%	0.68%	n.a.	0.52%
Burns Foods	0.20%	0.01%	0.28%	0.06%	0.25%	0.10%	0.21%

Sources: See Table I

One of the underlying causes of low profitability in the meat packing industry in recent years has been a very rapid rise in labour rates paid by the industry. By way of illustration, Schneider's payments for labour have gone up by 134.6% in the 10-year period ending in 1968 (approximately 9% per year) while the volume of production has only increased 75.3% (less than 6% per year). To compensate, Schneider's has paid close attention to its operating methods and has invested heavily in plant and equipment to raise productivity. (Capital expenditures on these items totalled $9.3 million over the last 8 years.) In Table III below a measure of annual productivity of its total plant operations is given and shows the success achieved in this regard.

TABLE III

Productivity

	1968	1967	1966	1965	1964
Lbs. Product Shipped per Man-hour worked	39.91	37.49	37.12	36.05	35.69

Over the five year period productivity increased on average of approximately 3% per year and largely took up the gap between rising labour costs and more slowly growing volume. As a result of these forces, Schneider's gross profit margins have held up well, considering the pressures on the industry in recent years.

TABLE IV

J. M. Schneider, Limited

	1968	1967	1966	1965	1964
Gross Profit Margin	14.75%	13.95%	13.4%	13.8%	14.5%

The decline in gross margin in 1966 (the year of Canada Packers' strike) coincided with a very large sales increase causing some loss of efficiency through overcapacity operation. The significant fact remains that, since 1966, profit margins have shown steady improvement in spite of the pressure of rapidly rising labour cost. Over the next few years gross profit margins are likely to continue this trend as the combination of higher profit margin products and rising labour productivity continue to affect operations. To this end, the company is currently planning a major addition to its Kitchener plant which will permit further rationalization of its operations and the introduction of important new labour-saving equipment in its sausage and wiener lines.

ADMINISTRATIVE, DISTRIBUTION AND SELLING EXPENSES

Over the last few years, these costs have been rising rapidly and have reduced the gains made by sales and gross profits. In 1965, these items of overhead amounted to 10.1% of sales but by the end of 1968 had increased to 11.1%. A number of factors account for the rise. Recent labour settlements have substantially increased employee benefits. For example, the cost of group insurance used to be shared and is now paid for entirely by the company. This change plus higher charges for the various kinds of benefit programs covered has added substantially to the overhead cost. It is unlikely that the company will experience additional increments to the fringe benefit program of this same magnitude in the foreseeable future.

Distribution cost rose as a result of rate increases by common carriers which occurred during this period. To rectify this situation, the company has reduced its dependence on common carriers by increasing the proportion of goods carried in its own vehicles. To this end the company reorganized the distribution within its northern Ontario district this year. It now delivers to this area in its own trucks rather than by common carriers as had been the practice in previous years.

The company has substantially increased its advertising expenditures recently as a result of a policy to emphasize product distinction. Greater use is now being made of radio and newspapers to emphasize specific products. Its "Sizzler" and "Big Red" campaigns are recent examples. To take full advantage of the campaigns, greater emphasis was given to chain store distribution and tie in promotions with resulting higher costs from this side.

As a result of the above mentioned factors, advertising, distribution and selling expenses have now been established at a new level in relation to the overall operations of the business. Therefore, over the next year or two, the company does not expect to see the same rate of increase take place as has recently been experienced. No major additions to the fringe benefit program are anticipated, distribution costs are being brought more directly under their own control and advertising programs are now set at their higher levels. Consequently, in projecting these items into the future, it is anticipated that the rate of increase should fall from the average of nearly 13% a year experienced in the period 1965 to 1968 to a level approximating 8% to 9% per year in the period 1969 to 1971.

EARNINGS FORECAST

In Table V, the results of Schneider's operations for the last four years and a forecast for the next three years is set out. The projections for revenue and expense items are based on the assumptions outlined in the previous part of this report. In arriving at net income, it is assumed that the tax rate will be 52%. The estimate of earnings per share are based on the number of shares currently outstanding in all classes of participating preferred and common shares. Based on these assumptions, Schneider's per share earnings should show an improved percentage increase over the next three years which is a reflection of three main factors: First, Schneider's conscious effort to aggressively expand its sales in the high profit margin, rapid growth area of processed meats. By that time the production at the new Ayr plant will be making a significant contribution to sales. Second, productivity should make further gains both as a result of the sales increases and as a result of the expansion and rationalization of the main Kitchener plant and the new Ayr plant. Third, administrative, distribution and selling expenses should now show more modest increases.

TABLE V

J. M. Schneider - Summary

					----- Estimate -----		
	1965	1966	1967	1968	1969	1970	1971
% Increase over Previous Year	(13.3%)	(22.3%)	(-1.5%)	(5.4%)	(7%)	(7.5%)	(8%)
Sales	48,127	58,898	57,902	61,067	65,400	70,000	76,000
Cost of Goods	41,464	50,917	49,813	52,042			
Gross Profit	6,662	7,980	8,089	9,024	9,740	10,600	11,550
% of Sales	(13.8%)	(13.4%)	(13.95%)	(14.75%)	(14.9%)	(15.2%)	(15.2%)
Admin.,Dist. & Sell.Ex	4,874	5,256	5,968	6,802	7,350	7,950	8,665
% Increase over Previous Year	(15.8%)	(7.8%)	(13.8%)	(14.0%)	(8%)	(8%)	(9%)
Interest on Debentures	23	19	15	-	-	-	-
Operating Income	1,765	2,705	2,106	2,222	2,390	2,650	2,885
Interest Income	43	40	34	42	40	40	25
Net before Tax	1,808	2,745	2,140	2,264	2,430	2,690	2,910
Taxes	956	1,399	1,109	1,195	1,275	1,400	1,510
Tax Rate	(52.1%)	(50.9%)	(51.7%)	(52.6%)	(52%)	(52%)	(52%)
Net Income	851	1,346	1,031	1,069	1,155	1,290	1,400
Number of Shares outstanding (000)	1,836	1,843	1,897	1,899	1,900	1,900	1,900
E.P.S.	$0.46	$0.73	$0.54	$0.56	$0.61	$0.68	$0.74
% Increase over Previous Year					(9%)	(11%)	(9%)

While a projection for three years in the future must by its nature be in the form of an educated guess, we feel that these results represent a realistic possibility for the company. In discussions with management, it was indicated that the company's objective for earnings growth is a rate of 10% to 15% per annum which, if realized, is a considerable improvement over the approximately 7% per year average increase achieved in the period 1965 to 1968. The forecast indicates an average rate of growth of 10% per year over the three year period, based on existing operations and new products that may be developed within this framework. It does not assume any acquisitions. These, however, are now being considered by the company as a logical way to expand in areas that would complement their existing expertise in the field of consumer food products and distribution.

Schneider's financial position is strong, having at the end of fiscal 1968, cash and marketable securities of approximately $1.2 million, no long term debt and an unused line of bank credit. This, plus an annual cash flow approaching $2 million per year, should give the company sufficient resources to carry out its plans.

TABLE VI

Capitalization

Pro Forma as at December 2, 1968

	Authorized	Outstanding	$	%
Long Term Debt				
Shareholders' Equity				
6% Non-Voting, Non-Cum. Class Preference Shares, Redeemable at Par Value of 20¢ per Share	5,000,000	-		
24¢ Cum. Participating Class "B" Preference Shares - N.P.V.	2,500,000	1,519,196	952,092	8.3
24¢ Cum. Participating Class "C" Preference Shares - N.P.V.	1,000	-		
Common Shares	580,825	379,799	238,023	2.1
Contributed Surplus			217,643	1.9
Retained Earnings			9,860,879	87.7
			$11,268,637	100%

The three classes of preferred shares plus common shares is rather unusual, but does provide some advantages for the investor. While only the Class "B" participating preference shares are traded over the counter, the Class "B" and Class "C" shares are convertible one into the other on a one-for-one basis. The main difference between them is the dividend privilege. Both are entitled to a 24¢ preferential dividend but the Class "C" shares may receive a stock dividend in the form of redeemable tax paid Class "A" shares at the company's discretion. Neither the Class "B" nor the Class "C" shares are entitled to vote unless the company fails to pay in the aggregate eight quarterly preferential dividends on that class of share.

Control of the company is held by the Schneider family through a majority interest in the common shares. Most of the remaining outstanding common shares not held by the Schneider family are owned by about 300 employees whose shares represent nearly 32% of the issue.

COMMENT

At the current market price of approximately $9, the stock is trading at a little over 15 times estimated 1969 earnings of 61¢ per share. If earnings develop as anticipated, it would indicate an improvement in the rate of growth of earnings and as a result we would expect the multiple of the stock to show some upward revision. This fact plus the improvement in earnings gives the stock potential for capital appreciation over the intermediate term. On its initial distribution earlier this year, the stock exhibited the usual new issue characteristics of shooting to an unrealistic premium, but it quickly settled to the $11 to $12 range from its offering price of $8.50. Since then, the stock has drifted downward slowly to the current level, still at a slight premium over the issue price. At these levels the stock would appear to have little downside risk having weathered the recent soft stock market reasonably well. We recommend that shareholders retain their positions in the stock and that others interested in a quality investment in the new issue field with intermediate term capital appreciation potential, consider the purchase of Schneider's Limited.

April 29, 1969

(MYW) McLEOD, YOUNG, WEIR
& COMPANY LIMITED ESTABLISHED IN 1921
MEMBERS OF INVESTMENT DEALERS' ASSOCIATION OF CANADA

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